

**Memorandum**

NOV 21 1997

Date June Gibbs Brown  
From Inspector General *June Gibbs Brown*

Subject Follow-up Review on the Medicaid Reimbursement Method for Healthwin Hospital  
(A-05-97-00029)

To Nancy-Ann Min DeParle  
Administrator  
Health Care Financing Administration

This memorandum is to alert you to the issuance of our final report on November 25, 1997. A copy is attached.

We performed a follow-up review on issues presented in our prior audit report, entitled "The Medicaid Reimbursement Method for Healthwin Hospital Should Be Changed" (A-05-92-00133). In that report, we showed that Healthwin had received Medicaid overpayments based on a reimbursement system patterned after the Medicare "Tax Equity Financial Responsibility Act" (TEFRA) of 1982. Final settlement of reimbursement levels under this system depended on the number of discharges made during a fiscal year. We found that the TEFRA payment system was unsuitable for Healthwin because it served long term patients and had few discharges. Despite the lack of discharges, Healthwin received numerous interim payments from Medicaid and was paid approximately \$800,000 over actual costs in 1991. We recommended that Indiana confer with the HCFA regional office about negotiating a settlement with Healthwin on all outstanding overpayments.

Indiana has proposed a settlement of \$3.1 million (estimated Federal share \$2.0 million) with Healthwin to resolve all overpayment issues for the years 1988 through 1995. We reviewed the proposed settlement and related documentation and found the settlement amount to be reasonable.

We are recommending that Indiana go forward with the \$3.1 million settlement and credit the \$2.0 million Federal share of the overpayments on the first available HCFA-64 report.

Page 2 - Nancy-Ann Min DeParle

Indiana's response to our report states that about \$446,000 of the Federal share of the settlement was credited on the June 30, 1997 HCFA-64 report and the remainder will be credited on a future report.

For further information please contact:

Paul P. Swanson  
Regional Inspector General  
for Audit Services, Region V  
(312) 353-2618

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**FOLLOW-UP REVIEW ON THE MEDICAID  
REIMBURSEMENT METHOD  
FOR HEALTHWIN HOSPITAL**

**OFFICE OF MEDICAID POLICY  
AND PLANNING  
INDIANAPOLIS, INDIANA**



**JUNE GIBBS BROWN  
Inspector General**

**NOVEMBER 1997  
A-05-97-00029**



DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V  
105 W. ADAMS ST.  
CHICAGO, ILLINOIS 60603-6201

OFFICE OF  
INSPECTOR GENERAL

Common Identification No. A-05-97-00029

Ms. Kathleen D. Gifford, Assistant Secretary,  
Office Of Medicaid Policy and Planning  
Family And Social Services Administration  
Indiana Government Complex  
402 West Washington Street, Room W382  
Indianapolis, Indiana 46204-2739

Dear Ms. Gifford:

The purpose of this letter report is to apprise you of the RESULTS OF OUR FOLLOW-UP REVIEW on a recommendation from our prior audit report, entitled "The Medicaid Reimbursement Method For Healthwin Hospital Should Be Changed" (Common Identification No. A-05-92-00133), issued in September 1993.

INTRODUCTION

BACKGROUND AND SCOPE OF REVIEW

Healthwin Hospital was a county-owned, 32 bed facility that treated patients with severe head injuries or patients who required the use of a ventilator. Most of these patients were in the hospital for long periods, some until death. Healthwin received Medicaid payments from Indiana based on the Medicare "Tax Equity Financial Responsibility Act" (TEFRA) of 1982.

Under TEFRA, final hospital payments are based on the number of hospital discharges times a discharge payment figure from a base year period adjusted for inflation. During the year, the TEFRA hospitals receive interim payments based on claims filed for services provided to Medicaid patients. At the end of the year, Indiana and the hospitals make a final settlement. Indiana considered a large part of the interim payments made to Healthwin between 1982 and 1993 to be overpayments, but final settlement had not been made at the time of our prior audit.

In September 1993, we issued report number A-05-92-00133, entitled "The Medicaid Reimbursement Method For Healthwin Hospital Should Be Changed." We concluded that the TEFRA payment method was not suitable for Healthwin because of the type of patients served and the resultant declining number of discharges. By analyzing Healthwin's 1991 cost report, we concluded that, on a cost reimbursement basis, Healthwin's Medicaid costs were approximately \$800,000 less than the interim payments Indiana had made to Healthwin.

We recommended that Indiana confer with the HCFA regional office about negotiating a settlement with Healthwin covering all outstanding overpayments.

This review was made in accordance with generally accepted government auditing standards. The objective of the review was to determine the reasonableness of a settlement Indiana is proposing for Healthwin.

#### RESULTS OF AUDIT

##### Proposed Negotiated Settlement

Beginning in 1995, Indiana began discussions with Healthwin concerning a negotiated settlement of \$3,136,339 (estimated Federal share \$2 million). The proposed settlement would cover overpayments and other issues for the years 1988 through 1995. The HCFA regional office reviewed the proposed settlement and, in a letter dated May 12, 1995, stated that the settlement was appropriate and complied with program regulations.

We reviewed the proposed settlement and related documentation and found the settlement amount to be reasonable. The proposed settlement was based on the following:

On March 1, 1993, Indiana established a new prospective all-inclusive payment rate of \$309 per day for services rendered to Medicaid patients in Healthwin Hospital. Effective January 1, 1994, the assets of Healthwin Hospital were transferred to St. Clair Darden Health Systems, Inc., a non-profit corporation. Indiana continued to pay St. Clair the \$309 daily rate for services rendered to Medicaid patients.

The TEFRA overpayments for the negotiated settlement were calculated by Indiana's Medicaid contractor, AdminaStar Federal. The TEFRA discharge payment figures were converted to a cost per day figure which was multiplied by the number of service days in each fiscal year to arrive at allowable TEFRA costs. In addition, AdminaStar generally added supplies and other ancillary costs to the allowable TEFRA costs based on revised Healthwin cost reports.

Starting in 1992, Indiana withheld certain Disproportionate Share Hospital payments (DSH) from Healthwin (and later, St. Clair) because of the TEFRA overpayments. The withheld amounts are payable to Healthwin/St. Clair and will be factored into the settlement.

From November 1, 1994 through October 31, 1995, Indiana's fiscal agent, EDS, incorrectly paid St. Clair rates based on the Diagnosis Related Group/Level Of Care (DRG/LOC) payment methodology. This error caused a separate overpayment to St. Clair.

Indiana agreed that it owed Healthwin and St. Clair for services rendered to two patients. One patient was in care from August 1, 1991 through October 9, 1995 (1540 days); and the other patient was in care from January 28, 1992 through September 3, 1994 (957 days).

St. Clair has now ceased operations and "Healthwin Hospital" no longer exists. Healthwin's patients were transferred to other facilities. Indiana officials told us that both the county (which owned Healthwin) and St. Clair have established trust funds to cover the cost of a settlement with Indiana.

Numerical details of the proposed settlement follow:

HEALTHWIN HOSPITAL SETTLEMENT:

1) TEFRA Overpayments	\$3,309,006
2) Indiana to Healthwin for the two patients	(184,380)
3) Indiana to Healthwin for withheld DSH payments	(434,502)
Total Owed	<u>\$2,690,124</u>

ST. CLAIR SETTLEMENT:

1) DRG/LOC Overpayments	\$603,978
2) Indiana to St. Clair for the two patients	(150,270)
3) Indiana to St. Clair for withheld DSH payments	(7,493)
Settlement	<u>\$446,215</u>

Total Settlement \$3,136,339

RECOMMENDATIONS

We recommend that Indiana recover the \$3,136,339 (estimated Federal share \$2 million) from both former owners of Healthwin Hospital and credit the Federal government's share of the overpayment on the first available HCFA-64 report.

State Agency Response

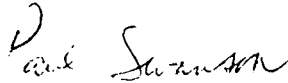
The Federal share of the St. Clair settlement of \$446,215 has been credited on the June 30, 1997 HCFA-64 report. The Federal share of the Healthwin Hospital settlement of \$2,690,124 is expected to be credited on a future HCFA-64 report. The State Agency's full response is included as an Appendix.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General audit reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general

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public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5).

To facilitate identification, please refer to the above Common Identification Number in all correspondence relating to this report.

A handwritten signature in cursive script, appearing to read "Paul Swanson".

Paul Swanson  
Regional Inspector General  
for Audit Services

APPENDIX

"People  
helping people  
help  
themselves"

Frank O'Bannon, Governor  
State of Indiana

**Office of Medicaid Policy and Planning**  
402 W. WASHINGTON STREET, ROOM W382  
INDIANAPOLIS, IN 46204-2739

Katherine L. Davis, Secretary

August 26, 1997

Mr. Richard Pound, Senior Auditor  
DHHS, Office of Inspector General, Audit Services  
575 North Pennsylvania St., Room 680  
Indianapolis IN 46204

Dear Rick:

The Office of Medicaid Policy and Planning has examined the draft document A-05-97-0029 and offers no comments regarding the content of the report. The OMPP recommends that the report be finalized and a copy be provided to the OMPP for our records.

As an update, the OMPP has completed its settlement agreement with Healthwin. St. Clair Darden Health Systems Inc. returned \$446,215 to the Medicaid program on 5-13-97 and that amount was forwarded to our fiscal agent EDS for incorporation into their operating account and for inclusion on the HCFA 64 report. Since EDS is involved in numerous transactions daily involving both additional payments and refunds, the Healthwin transaction of 5-13 did not appear on the HCFA report as a separate and distinct item but rather was a part of a daily and ultimately quarterly summary of collection activity. The \$446,215 was contained in the 6-30-97 HCFA 64 report and was reported on line 9(d).

The OMPP is currently awaiting payment from the St. Joseph County auditor for the balance of the settled amount, \$2,690,124. The payment is expected during September 1997 after two new St. Joseph County Commissioners sign off on the expenditure. Once the payment is received it will be appropriately divided between the EDS operating account and the AdminaStar Federal TEFRA settlement account. The collection will then appear as a part of the quarterly statistics on line 9(d) of a future HCFA 64 report.

If you need any additional information please feel free to contact Jay Keesling of my staff at 317-232-4306.

Sincerely,

Judith E. Becherer  
Director, Long Term Care

